

MANAGEMENT'S DISCUSSION AND ANALYSIS AND BASIC FINANCIAL **STATEMENTS**

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana Years Ended June 30, 2013 and 2012 With Report of Independent Auditors

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The Ernst & Young LLP report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

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Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana Management's Discussion and Analysis and Basic Financial Statements

Years Ended June 30, 2013 and 2012

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Report of Independent Auditors

The Board of Commissioners
Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana

Report on the Financial Statements

We have audited the accompanying basic financial statements of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the District), as of and for the years ended June 30, 2013 and 2012, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 3 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we also have issued our report dated October 21, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

Ernst + Young LLP

October 21, 2013

Management's Discussion and Analysis

June 30, 2013

This section of the annual financial report of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the District), presents background information and management's analysis of the District's financial performance. Please read it in conjunction with the basic financial statements in this report.

Required Financial Statements

The basic financial statements of the District report information about the District using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about the District's activities. The balance sheets include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. Increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. All of the current year's revenues and expenses are accounted for in the statement of revenue, expenses, and changes in net assets. This statement measures changes in the District's operations over the past year and can be used to determine whether the District has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the District's cash from operations, investing, and financing activities and to provide answers to questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

District Balance Sheets

A summary of the District's balance sheets for years June 30, 2011 through 2013 is presented in Table 1 below:

TABLE 1 Condensed Balance Sheets

	June 30	
2013	2012	2011
\$ 95,283,706	\$ 87,007,862	\$ 72,215,355
258,490,570	230,228,760	172,179,266
92,415,690	137,192,300	170,692,140
\$ 446,189,966	\$ 454,428,922	\$ 415,086,761
		-
\$ 50,070,226	\$ 48,829,962	\$ 38,665,048
200,717,195	205,299,189	183,134,008
250,787,421	254,129,151	221,799,056
53,987,470	37,832,667	41,781,621
21,464,591	21,424,479	23,397,989
119,950,484	141,042,625	128,108,095
\$ 446,189,966	\$ 454,428,922	\$ 415,086,761
	\$ 95,283,706 258,490,570 92,415,690 \$ 446,189,966 \$ 50,070,226 200,717,195 250,787,421 53,987,470 21,464,591 119,950,484	2013 2012 \$ 95,283,706 \$ 87,007,862 258,490,570 230,228,760 92,415,690 137,192,300 \$ 446,189,966 \$ 454,428,922 \$ 50,070,226 \$ 48,829,962 200,717,195 205,299,189 250,787,421 254,129,151 53,987,470 37,832,667 21,464,591 21,424,479 119,950,484 141,042,625

Summary of District's Income

The following table contains a summary of income and changes in net assets of the District for the years June 30, 2011 through June 30, 2013:

TABLE 2
Condensed Statements of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30				
	2013	2011			
Revenue:					
Net patient service revenue	\$ 272,781,640	\$ 263,480,905	\$ 249,620,219		
Other	4,332,342	3,315,347	3,110,245		
Total operating revenue	277,113,982	266,796,252	252,730,464		
Expenses:					
Salaries and employee benefits	179,874,484	166,780,376	156,624,850		
Supplies, contract services,					
equipment, and fees	63,292,044	59,691,434	58,534,724		
Other operating expenses	16,518,133	14,856,515	13,795,810		
Depreciation	16,284,053	14,160,224	13,620,172		
Interest	9,265,777	<u>8,6</u> 80,681	7,932,029		
Total operating expenses	285,234,491	264,169,230	250,507,585		
Operating (loss) income	(8,120,509)	2,627,022	2,222,879		
Investment income	818,919	1,890,244	2,646,712		
Other nonoperating income	2,404,364	2,494,800	2,494,800		
(Deficiency) excess of revenue and			2,151,000		
income over expenses	(4,897,226)	7,012,066	7,364,391		
Net assets at beginning of year	200,299,771	193,287,705	185,923,314		
Net assets at end of year	\$ 195,402,545	\$ 200,299,771	\$ 193,287,705		

Financial Analysis of the District

Financial Highlights for the Year Ended June 30, 2013

- The District's net Property, Plant, and Equipment increased by approximately \$28,262,000, or 12%, during fiscal year 2013.
- During the fiscal year, the District made capital investments for a total of approximately \$44,530,000. The following is a list of significant items:

Capital Investments	2013 Cost
Medical equipment	\$ 2,072,000
EPIC Electronic health records information systems	12,093,000
Medical Center expansion	27,240,000

The source of the funding for these projects was derived from operations as well as the 2009A Build America Bond and 2011 bond issuances.

- The District's Long Term Debt Outstanding decreased by \$4,582,000, or 2%, due to principal payments made during fiscal year 2013.
- During the year, the District's total operating revenue increased approximately \$10,317,000, or 4\%, to \$277,114,000 from the prior year. The District's operating revenue was affected by Medicare sequestration and other payment reductions, along with Medicaid rate reductions in the fiscal year. Total operating expenses increased \$21,065,000, or 8%, to \$285,234,000. The increased expense was related to a \$12,395,000, or 9%, labor cost increase as well as an increase of \$2,124,000, or 15%, in depreciation expense. The labor cost increase was attributable to the training and education costs for the implementation of EPIC Electronic Health Records in the hospitals and 28 physician clinics, the opening of the North Oaks Medical Center tower, and an increase in employed physicians. The tower is a 5-story, 231,281-square-foot wing connected to the existing medical center. There are 95 acute care beds, 14 operating rooms, 21 post-acute recovery units, and 12 new same-day surgery and pre-op holding rooms. In addition to expanding the Hospitalist program, the District added orthopedic, ENT, urological, OB/GYN, and Shock & Trauma clinics in fiscal year 2013 to meet community health care needs. The District had a loss from operations of \$8,121,000, which is approximately 3% of total operating revenue. This compares to the prior fiscal year's income from operations of approximately \$2,627,000, or 1% of operating revenue.

Financial Highlights for the Year Ended June 30, 2012

• The District's total assets increased by approximately \$39,342,000, or 10%, during fiscal year 2012. This increase was primarily due to capital investments (listed below) in the facility.

• During the fiscal year, the District made capital investments for a total of approximately \$72,254,000. The following is a list of significant items:

Capital Investments	2012 Cost
Medical equipment	\$ 3,830,000
Electronic health records information systems	9,046,000
North Oaks Clinic building	8,474,000
Medical Center expansion	39,045,000

The source of the funding for these projects was derived from operations as well as the 2009A Build America Bond and 2011 bond issuances.

• During the year, the District's total operating revenue increased approximately \$14,066,000, or 6%, to \$266,796,000 from the prior year. Total operating expenses increased \$13,662,000, or 6%, to \$264,169,000. The increased expense was related to a \$7,202,000, or 6%, labor cost increase as well as an increase of \$2,953,000, or 10%, in employee benefits expense. These increases were attributable to an increase in employed physicians. In addition to establishing the Hospitalist program, the District added rheumatology, orthopedics, infectious disease, ophthalmology, and physiatry clinics in fiscal year 2012 to meet community health care needs. The District had income from operations of \$2,627,000, which is approximately 1% of total operating revenue. This compares to the prior fiscal year's income from operations of approximately \$2,223,000, or 1% of operating revenue.

Sources of Revenue

Operating Revenue

During fiscal years 2013, 2012, and 2011, the District derived the majority, approximately 99%, of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs, other third-party payors, and patients. Reimbursement for the Medicare and Medicaid programs and other third-party payors is based upon established rates and contracts. The difference between the billed charges and the established contract rates is recognized as a contractual allowance.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the 2013, 2012, and 2011 fiscal years.

TABLE 3
Payor Mix by Percentage

	Year Ended June 30				
	2013	2012	2011		
Managed care	19%	19%	18%		
Medicare	52	54	53		
Medicaid	20	19	21		
Commercial insurance	4	4	4		
Self-pay and other	5	4	4		
Total patient revenues	100%	100%	100%		

Other Revenue

The following table summarizes other revenue:

TABLE 4
Other Revenue

	Year Ended June 30				
	2013	2012	2011		
Cafeteria	\$ 1,148,115	\$ 1,283,947	\$ 1,298,319		
Day care	_	_	270,870		
Gift shop	266,370	287,461	326,614		
Rental income	262,938	228,580	269,929		
X-ray school income	106,752	104,887	120,420		
Premier purchasing rebates	725,043	615,877	566,045		
EHR Meaningful Use Incentive	1,285,470	-	_		
Hospital Quality Incentive Payment	295,542	_	_		
Miscellaneous	242,112	794,595	258,048		
Total other revenue	\$ 4,332,342	\$ 3,315,347	\$ 3,110,245		

Day care revenue decreased due to the outsourcing of day care services offered to the District's employees starting in fiscal year 2011. The increase in Miscellaneous Income in fiscal year 2012 was due to \$601,000 in First Health Settlements payments received due to a settlement for underpayments of claims.

In 2013, the Hospital recognized revenue due from the Medicare and Medicaid programs for the meaningful use of certified electronic health record (EHR) technology in accordance with the American Recovery and Reinvestment Act of 2009.

Investment Income

As a Hospital Service District governed by the state of Louisiana, the District is authorized by Louisiana statutes to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the state of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions.

The District holds designated and restricted funds that are invested primarily in money market funds, certificates of deposit, and securities issued by the U.S. Treasury and other federal agencies. These investments had a total return of approximately \$819,000, \$1,890,000, and \$2,647,000 during fiscal years 2013, 2012, and 2011, respectively.

Other Nonoperating Income

Other nonoperating income of approximately \$2,404,000 in 2013 and \$2,495,000 in 2012 and 2011 related to subsidies was received from the U.S. Department of the Treasury related to the 2009A Build America Bonds issued in fiscal year 2010.

Operating and Financial Performance

Overall activities at the District, as measured by patient admissions, decreased 3% from 19,470 total admissions in 2012 to 18,775 total admissions in 2013. Similar to many others in the healthcare industry, more patients are classified under observations status rather than inpatient status.

Outpatient registrations decreased 3% to 106,044 in 2013 from 109,543 in 2012. ER visits remained steady from 2012 to 2013. Clinic visits increased 7% to 208,330 in 2013 from 194,804 in 2012.

Overall activity at the District, as measured by patient admissions remain steady. Total patient admissions were 19,470 in 2012 compared to 19,450 in 2011.

Outpatient registrations increased 2% to 109,543 in 2012 from 107,111 in 2011. ER visits remained steady from 2011 to 2012. Clinic visits increased 15% to 194,804 in 2012 from 168,848 in 2011.

From an operational perspective, the District continues to focus on quality of patient care and safety, patient and employee satisfaction, and cost reductions.

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TABLE 5
Patient and Hospital Statistical Data

	Year Ended June 30			
	2013	2012	2011	
Admissions:				
Adult and pediatric	11,077	12,578	12,802	
Observation	5,835	4,919	4,517	
Newborn and Neonatal Intensive Care Unit	1,387	1,446	1,495	
Comprehensive Medical Rehabilitation services	476	527	519	
Patient days:				
Adult and pediatric	59,197	64,011	66,827	
Observation	9,707	5,968	5,241	
Medicare (included in adult and pediatric)	34,949	39,807	40,960	
Medicaid (included in adult and pediatric)	10,102	11,469	13,011	
Newborn and Neonatal Intensive Care Unit	5,305	5,534	6,015	
Comprehensive Medical Rehabilitation services	5,743	6,358	6,323	
Operating room patients	11,301	11,682	11,894	
Outpatient registrations	106,044	109,543	107,111	
Emergency room visits	70,402	70,826	70,353	
Average daily census:				
Adult and pediatric	162	175	183	
Observation	27	16	14	
Comprehensive Medical Rehabilitation services	16	17	17	
Average length of stay (excluding newborn):				
All patients	5.9	5.3	5.5	
Observation	2	1	1	
Medicare patients	6.2	6.2	6.4	
Medicaid patients	3.9	3.7	4.1	
Comprehensive Medical Rehabilitation services	12.00	12.0	12.2	
Percentage of total patient days:				
Medicare	59.04%	62.19%	61.3%	
Medicaid	17.07%	17.92%	19.5%	
Clinic visits	208,330	194,804	168,848	
Full-time equivalents (FTEs)	2,332	2,126	2,061	

The following summarizes the District's statements of revenue, expenses, and changes in net assets between 2013 and 2012:

The District reports net patient service revenues in the statements of revenue, expenses, and changes in net assets. Net patient services revenue represents gross patient revenue, net of allowances.

In 2013, net patient revenue increased by 4% to \$272.8 million from \$263.5 million in 2012. While inpatient volumes decreased in 2013, clinic visits increased in 2013 primarily due to the expansion of the District's operations.

Allowances increased over prior years as described in the table below:

TABLE 6
Allowance Summary

	Year Ended June 30					
		2013		2012		2011
Allowances:						
Provision for bad debts	\$	79,274,626	\$	63,906,050	\$	52,317,717
Charity care		6,830,150		7,377,547		4,121,885
Managed Care and other contractual allowances Medicare Advantage contractual		259,261,909		223,096,311		196,009,828
allowances		217,574,018		198,845,956		167,809,024
Medicare contractual allowances		510,693,074		495,329,130		446,373,873
Medicaid contractual allowances		284,234,266		260,557,894		262,235,430
	\$	1,357,868,043	\$_	1,249,112,888	\$	1,128,867,757

Provision for bad debts increased approximately \$15,369,000, or 24%, to \$79,275,000 in 2013 from \$63,906,000 in 2012. This 24% increase, compared with a 22% increase between 2012 and 2011, is due to an increase in self-pay revenue, a continued increase in high-deductible health insurance plans, and an increase in bad debt write-offs primarily due to economic conditions.

Excluded from net patient service revenue are charges forgone for patient services falling under the District's charity care policy. Based on established rates, gross charges of approximately \$6,830,000 were forgone during 2013, compared with \$7,378,000 in 2012, or a 7% decrease from the prior fiscal year. The decrease was due to more self-pay patients qualifying for Medicaid coverage.

Salaries expense increased approximately \$12,395,000, or 9%, to \$147,049,000 in 2013 from \$134,654,000 in 2012. As a percentage of net patient service revenue, salary expense was approximately 53% for the fiscal year ended June 30, 2013, and 51% for the fiscal year ended June 30, 2012.

Employee benefit expense increased approximately \$699,000, or 2%, from the prior year. The increase in employee benefit expense was primarily due to an increase in health insurance expense. As a percentage of salaries expense, employee benefit expense was approximately 22% and 24% for the fiscal years ended June 30, 2013 and 2012, respectively.

Supplies expense increased approximately \$720,000, or 2%, from the prior year. As a percentage of net patient service revenue, supplies expense was 16% for fiscal years ended June 30, 2013 and 2012.

Contract services, equipment, and fees increased approximately \$2,880,000, or 17%, from the prior year. Minor equipment increased due to the opening of the North Oaks Medical Center expansion. Professional fees increased due to the expansion of the Hospitalist program and fees

for coverage for those physicians. Also, maintenance costs related to the EPIC conversion were incurred.

Other operating expenses increased approximately \$1,662,000, or 11%, from the prior year. As a percentage of net operating revenue, other operating expenses were 6% for the fiscal years ended June 30, 2013 and 2012.

Depreciation expense increased approximately \$2,124,000, or 15%, from the prior year. This increase in expense is due to major building additions and the Electronic Health Record system being placed in service.

Interest expense increased approximately \$585,000, or 7%, from the prior year due to a decrease in capitalized interest.

Total operating expenses increased by \$21,065,000 for the year ended June 30, 2013, for the reasons discussed above.

Investment income consists of interest earnings on funds designated by the Board of Commissioners and funds held by the trustee under bond resolution. Additionally, the realized and net unrealized gain or loss on fair market value adjustments is also included in this amount. Total investment income decreased from the prior year due primarily to a decrease in reserves due to payments made for EPIC and the Medical Center Expansion. Also, the volatility of the market resulted in less investment income and limited investment opportunities governed by the state law.

The following summarizes the District's statements of revenue, expenses, and changes in net assets between 2012 and 2011:

The District reports net patient service revenues in the statements of revenue, expenses, and changes in net assets. Net patient services revenue represents gross patient revenue, net of allowances.

In 2012, net patient revenue increased by 5.5% to \$263.5 million from \$249.6 million in 2011. While inpatient volumes decreased in 2012, outpatient visits and clinic visits increased in 2012 primarily due to the expansion of the District's facilities and operations. In addition, Medicaid revenue increased in 2012 due to the increase in the upper payment limit program revenue from approximately \$4.0 million in 2011 to \$12.0 million in 2012, which accounted for a significant component of the net patient revenue increase in 2012.

Allowances increased over prior years as described in the table below:

TABLE 7
Allowance Summary

	Year Ended June 30					
		2012	_	2011		2010
Allowances:						
Provision for bad debts	\$	63,906,050	\$	52,317,717	\$	43,293,147
Charity care		7,377,547		4,121,885		4,895,607
Managed Care and other contractual allowances		223,096,311		196,009,828		169,677,816
Medicare Advantage contractual allowances		198,845,956		167,809,024		146,174,706
Medicare contractual allowances		495,329,130		446,373,873		407,776,849
Medicaid contractual allowances		260,557,894		262,235,430		241,875,596
	\$	1,249,112,888	\$	1,128,867,757	\$	1,013,693,721

Provision for bad debts increased approximately \$11,588,000, or 22%, to \$63,906,000 in 2012 from \$52,318,000 in 2011. This 22% increase, compared with a 21% increase between 2011 and 2010, is due to an increase in self-pay revenue and an increase in high-deductible health insurance plans.

Excluded from net patient service revenue are charges forgone for patient services falling under the District's charity care policy. Based on established rates, gross charges of approximately \$7,378,000 were forgone during 2012, compared with \$4,122,000 in 2011, or a 79% increase from the prior fiscal year. The increase was due to the increases in charity care applications resulting from the continued slow recovery in the overall economy.

Salaries expense increased approximately \$7,202,000, or 6%, to \$134,654,000 in 2012 from \$127,452,000 in 2011. As a percentage of net patient service revenue, salary expense was approximately 51% for each of the fiscal years ended June 30, 2012 and 2011.

Employee benefit expense increased approximately \$2,953,000, or 10%, from the prior year. As a percentage of salaries expense, employee benefit expense was approximately 24% and 23% for the fiscal years ended June 30, 2012 and 2011, respectively. The increase in employee benefit expense was primarily due to increases in employee health insurance costs.

Supplies expense increased approximately \$913,000, or 2%, from the prior year. As a percentage of net patient service revenue, supplies expense was 16% and 17% for the fiscal years ended June 30, 2012 and 2011, respectively.

Contract services, equipment, and fees increased approximately \$244,000, or 2%, from the prior year.

Other operating expenses increased approximately \$1,061,000, or 8%, from the prior year. As a percentage of net operating revenue, other operating expenses were 6% for the fiscal years ended June 30, 2012 and 2011.

Depreciation expense increased approximately \$540,000, or 4%, from the prior year. This increase in expense is due to major building additions being placed in service.

Interest expense increased approximately \$749,000, or 9%, from the prior year due to the 2011 bond issuance.

Total operating expenses increased by \$13,662,000 for the year ended June 30, 2012, for the reasons discussed above.

Investment income consists of interest earnings on funds designated by the Board of Commissioners and funds held by the trustee under bond resolution. Additionally, the realized and net unrealized gain or loss on fair market value adjustments is also included in this amount. Total investment income decreased from the prior year due primarily to the Federal Reserve Bank lowering its interest rates, which resulted in an overall decrease in interest rates for investments purchased in fiscal year 2012.

Capital Assets

During fiscal years 2013 and 2012, the District invested approximately \$44,530,000 and \$72,254,000, respectively, in a broad range of property, plant, and equipment included in Table 8 below.

TABLE 8
Property, Plant, and Equipment

	2013	2011	
Land	\$ 7,455,974	\$ 7,455,974	\$ 7,455,974
Building and equipment	448,301,804	320,051,769	292,048,296
Subtotal	455,757,778	327,507,743	299,504,270
Less accumulated depreciation	206,354,923	191,388,259	177,953,445
Construction in progress	9,087,715	94,109,276	50,628,441
Net property, plant, and equipment	\$ 258,490,570	\$ 230,228,760	\$ 172,179,266

Net property, plant, and equipment have increased as the District enhanced existing facilities and equipment. The District invested in various construction projects to improve and expand its outpatient and inpatient services. The Livingston Parish Medical Complex, a 48,981-square-foot facility, was completed in January 2011. The acquisition of an outpatient surgical center took place in December 2011. A four-floor Medical Clinic Building on campus was completed in January 2012. The tower, a 5-story, 231,281-square-foot wing connected to the existing medical

center, was completed in January 2013. There are 95 acute care beds, 14 operating rooms, 21 post-acute recovery units, and 12 new same-day surgery and pre-op holding rooms.

The kitchen is in the process of being expanded and renovated. Seating capacity will be increased by 60 seats and 3,400 square feet.

The Emergency Department is currently the second busiest in the state. North Oaks Medical Center is in the process of expanding its Emergency Department to a total of 35 treatment rooms and the Urgent Care Department to a total of 11 treatment rooms. This project adds approximately 27,450 square feet to North Oaks Medical Center.

Long-Term Debt (Excluding Capital Leases)

In July 2003, \$70,000,000 of Hospital Revenue Bonds was sold and \$50,000,000 of the bond proceeds was used to refund a portion of the Series 1994 Bonds. In August 2003, an additional \$20,000,000 of bonds was sold. The net proceeds of these sales were used to fund additions, renovations, and improvements to the District's facilities. Further, in June 2004, \$5,000,000 of Hospital Refunding Bonds was sold. The net proceeds of these sales were used to refund additional amounts of the Series 1994 Bonds.

The District issued \$99,000,000 of Hospital Revenue Bonds, Series 2009 (Series 2009A Bonds), which are insured, taxable Build America Bonds, on October 7, 2009. These bonds qualify for a 35% interest payment subsidy from the U.S. Department of the Treasury. The subsidy was reduced by 8.7% due to the sequestration cut as a result of the Budget Control Act implemented as of March 1, 2013. These bonds were used to fund a major expansion program on the North Oaks Medical Center (NOMC) campus involving the construction, installation, and equipping of an approximately 231,281-square-foot, 5-story wing connected to the existing medical center. The NOMC expansion includes the addition of 95 acute care beds with related necessary support services and facilities. The NOMC expansion includes the addition of 14 operating rooms, 21 post-acute recovery units, and 12 new same-day surgery and pre-operative holding rooms. Additional patient beds are for general surgery, orthopedics, neurosurgery, and telemetry and surgical intensive care rooms. The expansion also includes the addition of a central mechanical plant to be equipped with chiller, generator, cooling towers, necessary pumps, heat exchanger, and utility loop connection. Other components include the addition of a helipad and medical gas farm. The remaining portion will include Emergency Room expansion and cafeteria and kitchen expansions.

The District issued \$25,000,000 of Bonds, Series 2011 on November 3, 2011. The entire bond issuance was purchased and held by GE Government Finance, Inc. The proceeds of the bonds were used to fund capital expenditures incurred by the District during the construction of the 4-story, 88,639-square-foot North Oaks Clinic Building, which houses physician clinics such as Orthopedic, OB/GYN, Pulmonology, Internal Medicine, ENT, Urology, Rheumatology, Perinatology, Neurology, and Neurosurgery.

At June 30, 2013, the District had approximately \$204,516,000 in short-term and long-term debt. Total debt decreased by \$2,590,000 in fiscal year 2013 from \$207,106,000 in fiscal year 2012.

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At June 30, 2012, the District had approximately \$207,106,000 in short-term and long-term debt. Total debt increased by \$22,514,000 in fiscal year 2012 from fiscal year 2011 due to the 2011 bond issuance made in 2012.

At June 30, 2011, the District had approximately \$184,591,000 in short-term and long-term debt. Total debt increased by \$175,000 in fiscal year 2011 from additional \$2,167,000 debt assumed through the purchase of a surgery center building and offset by principal payments made in 2011. More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

Contacting the District's Financial Officer

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's administration.

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Basic Financial Statements

Balance Sheets

	June 30			
		2013		2012
Assets				
Current assets:				
Cash and cash equivalents	\$	10,818,200	\$	8,260,338
Patient accounts receivable, net of allowance for uncollectibles of \$50,268,841 in 2013 and				
\$37,086,999 in 2012		66,542,841		61,910,622
Current portion of designated cash and investments		6,291,587		5,975,601
Estimated third-party payor settlements – Medicare and		,		
Medicaid		1,361,751		_
Inventories		5,016,090		5,369,140
Prepaid expenses and other current assets		5,253,237		5,492,161
Total current assets		95,283,706		87,007,862
		•		
Designated cash and investments:				
Under bond indenture agreement held by trustee		21,477,333		36,133,905
By Board for plant and equipment additions and				
replacements		65,831,211		94,728,524
By Board for self-insurance claims	_	1,684,463		1,672,950
		88,993,007		132,535,379
Less current portion		6,291,587		5,975,601
Noncurrent designated cash and investments		82,701,420		126,559,778
Property, plant, and equipment:				
Land		7,455,974		7,455,974
Buildings and equipment		448,301,804		320,051,769
Construction in progress	_	9,087,715		94,109,276
		464,845,493		421,617,019
Less accumulated depreciation	_	206,354,923		191,388,259
Property, plant, and equipment, net		258,490,570		230,228,760
Unamortized financing costs, net		8,657,413		9,156,152
Deferred compensation plan investments		189,797		772,736
Other assets	_	867,060		703,634
Total assets	\$	446,189,966	\$	454,428,922

	June 30		
	2013	2012	
Liabilities and net assets			
Current liabilities:			
Accounts payable	\$ 21,992,902	\$ 20,860,547	
Accrued salaries and payroll-related costs	14,437,787	13,009,097	
Accrued interest payable	4,700,676	4,775,056	
Accrued self-insurance claims	4,950,420	4,031,152	
Estimated third-party payor settlements – Medicare	•		
and Medicaid	-	3,575,041	
Current portion of capital lease obligations	13,417	68,027	
Current portion of long-term debt	3,975,024	2,511,042	
Total current liabilities	50,070,226	48,829,962	
Capital lease obligations, excluding current portion	3,240	16,614	
Long-term debt, excluding current portion	200,524,158	204,509,839	
Deferred compensation plan obligations	189,797	772,736	
Total liabilities	250,787,421	254,129,151	
Net assets:			
Invested in capital assets, net of related debt	53,987,470	37,832,667	
Restricted net assets	21,464,594	21,424,479	
Unrestricted net assets	119,950,481	141,042,625	
Total net assets	195,402,545	200,299,771	

Total liabilities and net assets \$ 446,189,966 \$ 454,428,922

See accompanying notes.

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana Statements of Revenue, Expenses, and Changes in Net Assets

	Year Ende	d June 30 2012
Revenue:		
Net patient service revenue		\$ 327,386,955
Provision for doubtful accounts	<u>(79,274,625)</u>	(63,906,050)
Total patient service revenue	272,781,640	263,480,905
Other	4,332,342	3,315,347
Total operating revenue	277,113,982	266,796,252
Expenses:		
Salaries	147,049,046	134,654,067
Employee benefits	32,825,438	32,126,309
Supplies	43,943,261	43,223,058
Contract services, equipment, and fees	19,348,783	16,468,376
Other operating expenses	16,518,133	14,856,515
Depreciation	16,284,053	14,160,224
Interest	9,265,777	8,680,681
Total operating expenses	285,234,491	264,169,230
(Loss) income from operations	(8,120,509)	2,627,022
Nonoperating income:		
Investment income:		
Investment income	1,196,704	2,828,069
Unrealized (loss) gain on investments	(236,570)	418,001
Realized loss on investments	(141,215)	(1,355,826)
Total investment income	818,919	1,890,244
Other nonoperating income	2,404,364	2,494,800
Total nonoperating income	3,223,283	4,385,044
(Deficiency) excess of revenue and income over expenses	(4,897,226)	7,012,066
Net assets at beginning of year	200,299,771	193,287,705
Net assets at end of year	\$ 195,402,545	\$ 200,299,771

Statements of Cash Flows

	Year Ende	ed June 30 2012
Operating activities		
Cash collected from patients and third-party payors	\$ 267,544,971	
Cash payments to employees and for employee-related costs	(177,526,526)	(163,677,123)
Cash payments for supplies, services, and other operating expenses	(73,543,692)	(74,097,500)
Net cash provided by operating activities	16,474,753	17,766,938
	,,	,,
Capital and related financing activities		
Purchases of property, plant, and equipment	(45,873,220)	(66,791,093)
Principal payments on long-term debt incurred for capital		
purposes	(2,511,043)	(2,406,972)
Principal payments on capital lease obligations	(67,984)	(67,725)
Interest payments on long-term debt and capital lease	` , ,	` , ,
obligations	(12,144,578)	(11,468,949)
Proceeds from issuance of long-term debt, net of issuance costs		
and bond insurance	(85,721)	24,910,009
Build America Bond subsidy	2,404,364	2,494,801
Net cash used in capital and related financing activities	(58,278,182)	(53,329,929)
Investing activities		
Investment income	1,332,886	2,828,070
Change in short-term investments		1,400,000
Purchases of designated cash and investments	(36,528,712)	
Proceeds from sales and maturities of designated cash and	(0.0,0.20,1.2.)	(>0,,,,0,,220)
investments	79,557,117	128,725,486
Net cash provided by investing activities	44,361,291	37,158,336
Net change in cash	2,557,862	1,595,345
Cash and cash equivalents at beginning of year	8,260,338	6,664,993
Cash and cash equivalents at end of year	\$ 10,818,200	\$ 8,260,338

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana Statements of Cash Flows (continued)

		Year Ended 2013	June 30 2012
Reconciliation of income from operations to net cash provided by operating activities (Loss) income from operations	<u> </u>	(8,120,509) \$	
Adjustments to reconcile operating revenue in excess of operating expenses to net cash provided by operating activities:	J	(0,120,302)	2,027,022
Depreciation and amortization		16,284,053	14,160,224
Provision for bad debts		79,274,625	63,906,050
Amortization of financing costs		584,460	599,934
Amortization of premium on long-term debt		(10,656)	(11,039)
Interest expense on long-term debt and capital lease			
obligations		8,688,293	8,091,785
Changes in operating assets and liabilities:			
Patient accounts receivable, net		(83,906,844)	(80,808,396)
Inventories, prepaid expenses, and other assets		428,548	(889,876)
Estimated third-party payor settlements – Medicare and		ŕ	, , ,
Medicaid		(4,936,792)	5,647,658
Accounts payable, accrued salaries, payroll-related costs,		() //- /	, , , , , , , , , , , , , , , , , , , ,
and other accrued expenses		8,189,575	4,443,576
Net cash provided by operating activities	\$	16,474,753 \$	

See accompanying notes.

Notes to Basic Financial Statements

June 30, 2013

1. Organization and Significant Accounting Policies

Organization

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (the District), is a political subdivision of the state of Louisiana created by ordinance of the Tangipahoa Parish Police Jury, which is now the Parish Council, adopted on May 17, 1955, pursuant to Chapter 10 of Title 46 of the Louisiana Revised Statutes of 1950, as amended. The District is governed by a Board of Commissioners consisting of five members appointed by the Parish Council.

Founded in 1954 by the citizens of Tangipahoa Parish and opening its doors on April 20, 1960, as a 60-bed, nonprofit public hospital service district facility, the former "Seventh Ward General Hospital" has evolved into what is now commonly known as the North Oaks Health System (the System).

The System recently completed a restructuring that resulted in formation of the following subsidiaries: (i) North Oaks Medical Center, L.L.C. (NOMC), a wholly owned subsidiary of the System whose sole member is the District, whose purpose is to manage and operate the System's acute-care hospital known as North Oaks Medical Center pursuant to a Management Services Agreement between the District and the NOMC Affiliate; (ii) North Oaks Rehabilitation Hospital, L.L.C. (NORH), a wholly owned subsidiary of the System whose sole member is the District, whose purpose is to manage and operate the System's comprehensive medical rehabilitation hospital known as North Oaks Rehabilitation Hospital pursuant to a Management Services Agreement between the District and the NORH Affiliate; and (iii) North Oaks Physician Group, L.L.C. (NOPG), a wholly owned subsidiary of the System whose sole member is the District, whose purpose is to manage and operate the System's network of multispecialty physician clinics known as North Oaks Physicians Group pursuant to a Management Services Agreement between the District and the NOPG Affiliate. Additionally, in 2009 in connection with the acquisition of the North Oaks Surgery Center, the System formed Gold Leaf Holdings. L.L.C., a wholly owned subsidiary of the System whose members are the District and Gold Leaf Holding II, L.L.C. Each of the Affiliated Entities is governed by a separate Board of Managers that is subject to the power of the Board of Commissioners of the District and whose members are appointed by the Board of Commissioners of the District.

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Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Basis of Accounting

The District reports in accordance with accounting principles generally accepted in the United States as specified by the American Institute of Certified Public Accountants' Audits of Providers of Health Care Services and, as a governmental entity, also reports in accordance with accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

Cash and Cash Equivalents

Cash and cash equivalents include investments in money market funds and highly liquid investments with maturities of three months or less when purchased, excluding amounts whose use is limited by the Board of Commissioners' designation or under trust agreements.

Short-Term Investments

Short-term investments include investments with a maturity date of 12 months or less.

Investments

All investments are stated at fair value based on quoted market prices. Changes in the difference between the cost and the fair market value of the investments are included in investment income. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments.

Investment income is reported as nonoperating income.

Inventories

Inventories are valued at the latest invoice price, which approximates market.

Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Property, Plant, and Equipment

The District records all property, plant, and equipment acquisitions at cost except for assets donated to the District. Donated assets are recorded at appraised value at the date of donation. The District provides for depreciation of its plant and equipment using the straight-line method based on the estimated useful lives of the assets as suggested by the American Hospital Association. Equipment recorded under capital lease obligations is included in buildings and equipment, and the associated amortization of these assets is included in depreciation expense.

Unamortized Financing Costs

The District defers costs incurred in connection with the issuance of its bonds and amortizes such costs using the effective interest method over the life of the bond issue. The amortization is included in interest expense. Additionally, the difference between the refunded price of the Series 1994 Bonds and the net carrying amount was deferred. Approximately \$4,500,000 has been included in the gross unamortized financing costs and is being amortized as a component of interest expense over the original life of the Series 1994 Bonds.

Self-Insurance Claims

Accrued self-insurance claims represent the District's best estimate of incurred but unpaid expenses for professional and general liability, workers' compensation, and employees' health insurance expense. Unpaid employee health insurance claims for services provided to employees by the District are presented as a reduction to the patient accounts receivable.

Net Assets

The District's net assets are classified into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These components are defined as follows:

• Invested in capital assets, net of related debt – This component reports capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

- Restricted This component reports those net assets with externally imposed constraints on their use by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted This component reports net assets that do not meet the definition of either of the other two components: "restricted" or "invested in capital assets, net of related debt."

Statements of Revenue, Expenses, and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are included in operating revenue or expenses. All peripheral transactions are reported as a component of nonoperating income.

Other nonoperating income relates to subsidies received from the U.S. Department of Treasury, per the terms of the 2009 bond agreement, to offset interest payments for the 2009A Build America Bonds.

Net Patient Service Revenue and Related Receivables

The District has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the District is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Net patient service revenue is reported at the estimated amounts realizable from patients, third-party payors, and others for services rendered. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined. These adjustments resulted in an increase to net patient service revenue of approximately \$1,277,000 in 2013 and a decrease to net patient service revenue of approximately \$778,000 in 2012.

Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

In fiscal year 2013, the District recorded approximately \$46,000 in disproportionate share payments related to high Medicaid utilization and uncompensated care costs. The District also recorded Upper Payment Limit Program (UPL) payments for Physician Supplemental payments of approximately \$3,954,000 and Hospital UPL payments of approximately \$8,595,000 during the year ended June 30, 2013. These amounts were used to offset Medicaid contractual adjustments, which resulted in an increase in net patient service revenue.

In fiscal year 2012, the District recorded approximately \$110,000 in disproportionate share payments related to high Medicaid utilization and uncompensated care costs. The District also recorded UPL payments for Physician Supplemental payments of approximately \$4,986,000 and Hospital UPL payments of approximately \$7,076,000 during the year ended June 30, 2012. These amounts were used to offset Medicaid contractual adjustments, which resulted in an increase in net patient service revenue.

To provide for accounts receivable that could be uncollectible in the future, the District establishes an allowance for doubtful accounts to reduce the carrying value of receivables to their estimated net realizable value. The primary uncertainty related to collection is related to uninsured patient receivables, insured patient deductibles, and co-payments and other amounts due from individual patients. There are various factors that can affect collection trends, such as economic changes, which can affect unemployment rates and the number of uninsured and under-insured patients, the volume of emergency room visits, and business practices related to collection efforts. These factors are monitored continuously and can affect collection trends and the estimation process.

The District's allowance for doubtful accounts for self-pay patients decreased from 79% of self-pay accounts receivable at June 30, 2012, to 75% of self-pay accounts receivable at June 30, 2013. The District's self-pay write-offs increased \$8,116,000 from \$62,517,000 for fiscal year 2012 to \$70,634,000 for fiscal year 2013. The District has not changed its charity care or uninsured discount policies during fiscal years 2013 or 2012. The District also maintains an allowance for doubtful accounts from third-party payors; however, there are no significant write-offs from third-party payors.

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Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	Medicare	Medicaid	Self-Pay	Other	<u>Total</u>
FY 2013	\$ 74,895,000	\$ 27,276,000	\$ 70,449,000	\$179,436,000	\$352,056,000
FY 2012	\$ 80,013,000	\$ 26,619,000	\$ 47,271,000	\$173,484,000	\$327,387,000

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (the Act) provides for Medicare and Medicaid incentive payments for eligible hospitals and professionals that adopt and meaningfully use certified electronic health record (EHR) technology. The District recognizes income related to Medicare and Medicaid incentive payments using a grant accounting model that is based upon when the District has demonstrated meaningful use of certified EHR technology for the applicable period. Beginning in 2013, the District achieved compliance with certain of the requirements of the Act. As a result, the District recognized \$1,285,000 as other operating revenue due from Center of Medicare & Medicaid Services.

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Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Records of charges forgone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided.

Medicare and Medicaid Reimbursement

The District is reimbursed under the Medicare Prospective Payment System (PPS), which reimburses the District a predetermined amount for Medicare inpatient acute services rendered based, for the most part, on the Diagnosis Related Group (DRG) assigned to the patient. Medicaid inpatient services are paid on a prospective per diem basis.

The District is reimbursed for Medicare outpatient services under the Ambulatory Payment Classification (APC) based on fixed rates per outpatient procedure.

Medicaid outpatient services such as laboratory, outpatient surgery, and rehabilitation are reimbursed under fee schedule payment methodology, while other outpatient services are reimbursed based on an average of 67.13% of total cost for 2013 and 69.71% of total cost for 2012.

Medicare bad debts, Medicare Disproportionate Share Hospital (DSH) payments, and Medicaid non-fee schedule outpatient services were reimbursed on a tentative basis during the year and are subject to a retroactive payment adjustment determined in accordance with appropriate Medicare or Medicaid program regulations. It is at least reasonably possible that the recorded estimates will change by material amounts in the near term. Retroactive cost settlements are accrued on an estimated basis in the period the related services are rendered and adjusted as necessary in future periods as final settlements are determined. Medicare and Medicaid settlements have been determined following the principles of reimbursement applicable to each program.

During the years ended June 30, 2013 and 2012, the District's percentage of gross patient revenue derived from Medicare and Medicaid program beneficiaries was 72% and 73%, respectively.

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Notes to Basic Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Income Taxes

The District is exempt from federal income taxation as a political subdivision of the state of Louisiana, and accordingly, the accompanying financial statements do not include any provision for income taxes.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash, Investments, and Designated Cash and Investments

At June 30, cash and investment balances were as follows:

	Maturity	Fair Value
2013		· · · · · · · · · · · · · · · · · · ·
Securities type:		
U.Sbacked government obligations	2013-2018	\$ 21,377,349
Cash and cash equivalents, certificates of deposit, and		
accrued interest receivable		78,433,858
		\$ 99,811,207
2012		
Securities type:		
U.Sbacked government obligations	2012-2017	\$ 35,916,557
Cash and cash equivalents, certificates of deposit, and		
accrued interest receivable		104,879,160
		\$ 140,795,717

Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana Notes to Basic Financial Statements (continued)

2. Cash, Investments, and Designated Cash and Investments (continued)

The table below reconciles the cash, investments, and designated cash and investments by security type to the amounts recorded on the balance sheet at June 30:

Balance Sheet Classification							
	Cash and Equivalents		-	I	nvestments –		Total
					-		
\$	_	\$	6,291,587	\$	15,085,762	\$	21,377,349
	10,818,200				67,615,658		78,433,85 <u>8</u>
\$	10,818,200	\$	6,291,587	\$	82,701,420	\$	99,811,207
\$	_	\$	5,975,601	\$	29,940,956	\$	35,916,557
	8,260,338				96,618,822		104,879,160
\$	8,260,338	\$	5,975,601	\$	126,559,778	\$	140,795,717
	\$ <u>\$</u>	Equivalents \$ - 10,818,200 \$ 10,818,200 \$ - 8,260,338	Cash and In Equivalents \$ - \$ 10,818,200 \$ 10,818,200 \$ \$ - \$ 8,260,338	Cash and Equivalents Designated Investments – Current \$ - \$ 6,291,587 10,818,200 \$ - \$ 10,818,200 \$ 6,291,587 \$ - \$ 5,975,601 8,260,338	Cash and Equivalents Designated Investments – In Current \$ - \$ 6,291,587 \$ 10,818,200	Cash and Equivalents Designated Investments – Current Designated Investments – Long-Term \$ - \$ 6,291,587 \$ 15,085,762 10,818,200 - 67,615,658 \$ 10,818,200 \$ 6,291,587 \$ 82,701,420 \$ - \$ 5,975,601 \$ 29,940,956 8,260,338 - 96,618,822	Cash and Equivalents Designated Investments – Current Designated Investments – Long-Term \$ - \$ 6,291,587 \$ 15,085,762 \$ \$ 10,818,200 - 67,615,658 \$ \$ 10,818,200 \$ 6,291,587 \$ 82,701,420 \$ \$ - \$ 5,975,601 \$ 29,940,956 \$ \$ 8,260,338 - 96,618,822

Louisiana statutes authorize the District to invest in obligations of the U.S. Treasury and other federal agencies, time deposits with state banks and national banks having their principal offices in the state of Louisiana, guaranteed investment contracts issued by highly rated financial institutions, and certain investments with qualifying mutual or trust fund institutions.

Notes to Basic Financial Statements (continued)

2. Cash, Investments, and Designated Cash and Investments (continued)

The District has a policy for the composition of asset allocation and specific allocation of funds as outlined below, and the result is that maturity terms are staggered.

	Desired
	Percentage
	Range of
	Overall
	Portfolio
Type of investment:	_ _
Certificates of deposit	0% to 100%
Direct U.S. Treasury obligations (T-Bills, T-Notes)	0% to 100%
Treasury funds	0% to 100%
Bonds or notes – issued or guaranteed by federal agencies or	
government instrumentalities (which are federally sponsored)	0% to 100%
Mutual funds (100% government-backed)	0% to 25%
Term of investments:	
0 to 6 months	0% to 100%
6 months to 1 year	0% to 100%
1 year to 5.5 years	0% to 100%
5.5 years to 10 years	0% to 30%
Greater than 10 years, but less than 20 years	0% to 30%

During the years ended June 30, 2013 and 2012, the District invested primarily in securities issued by the U.S. Treasury and other federal agencies.

Credit Risk - Investments

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Notes to Basic Financial Statements (continued)

2. Cash, Investments, and Designated Cash and Investments (continued)

Concentration of Credit Risk

As required under GASB Statement No. 40, Deposit and Investment Risk Disclosures — an amendment of GASB Statement No. 3, concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. GASB 40 further defines an at-risk investment to be one that represents more than 5% of the fair value of the total investment portfolio and requires disclosure of such at-risk investments. GASB 40 specifically excludes investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments from the disclosure requirement. At June 30, 2013 and 2012, the District had no investments requiring concentration of credit risk disclosure.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the District be protected by Federal Deposit Insurance Corporation (FDIC) insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by FDIC insurance. As of June 30, 2013, \$77,740,000 of the District's bank balances of \$79,013,000 was collateralized with securities held by the pledging financial institutions to cover any exposure to credit risk as uninsured. The remaining balance was protected by FDIC insurance.

Custodial Credit Risk - Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2013 and 2012, the District was not exposed to custodial credit risk for its investments, as all were registered in the name of the District.

Interest Rate Risk - Investments

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Notes to Basic Financial Statements (continued)

2. Cash, Investments, and Designated Cash and Investments (continued)

Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the District's segmented time distribution investment maturities in years by investment type as of June 30, 2013:

			<u>Years</u>	
Investment Type	Fair Value	< 1	1–5	>5
U.Sbacked government obligations	\$ 21,377,349	\$ 13,704,430	\$ 7,672,919	\$ <u> </u>

The table below summarizes the District's segmented time distribution investment maturities in years by investment type as of June 30, 2012:

			Years	
Investment Type	Fair Value	< 1	1-5	> 5
U.Sbacked government				
obligations	\$ 35,916,557	\$ 23,979,266	\$ 11,937,291	

3. Concentration of Credit Risk

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at June 30 was as follows:

	2013	2012
Medicare	48%	45%
Medicaid	10	15
Other (managed care, commercial, self-pay)	42	40
	100%	100%

Notes to Basic Financial Statements (continued)

4. Designated Cash and Investments

The terms of the District's Revenue Bonds (see Note 8) require funds to be maintained on deposit in certain accounts with the trustee. The funds on deposit in the accounts are required to be invested by the trustee in accordance with the terms of the related bond resolutions. As of June 30, the funds were deposited as follows:

	 2013	2012
Bond principal account	\$ 1,541,749	\$ 933,398
Bond interest account	4,849,721	5,259,453
Bond construction account	12,739	14,709,428
Reserve accounts and other	15,073,124	15,231,626
	\$ 21,477,333	\$ 36,133,905

The District's Board of Commissioners has designated Hospital funds to be used for future plant and equipment additions (see Note 11), and to fund self-insurance claims. These funds were invested in certificates of deposit, U.S. government obligations, and money market funds at June 30, 2013 and 2012.

5. Property, Plant, and Equipment

The District's investment in property, plant, and equipment consisted of the following as of June 30, 2013:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Land and land improvements	\$ 7,456,000	\$ -	s –	\$ -	\$ 7,456,000
Buildings and fixed equipment	208,367,000	6,857,000	83,040,000	(94,000)	298,170,000
Equipment	111,685,000	12,867,000	26,803,000	(1,223,000)	150,132,000
Construction in progress	94,109,000	24,822,000	(109,843,000)	· -	9,088,000
	421,617,000	44,546,000	_	(1,317,000)	464,846,000
Less accumulated depreciation	191,388,000	16,284,000		(1,317,000)	206,355,000
Property, plant, and equipment, net	\$ 230,229,000	\$ 28,262,000	<u>s</u> –		\$258,491,000

5. Property, Plant, and Equipment (continued)

The District's investment in property, plant, and equipment consisted of the following as of June 30, 2012:

	Beginning Balance	Additions	Retirements		Transfers	Ending Balance
Land and land improvements	\$ 7,456,000	\$ -	\$	_	\$ -	\$ 7,456,000
Buildings and fixed equipment	186,876,000	1,704,000		(43,000)	19,830,000	208,367,000
Equipment	105,172,000	5,708,000		(726,000)	1,531,000	111,685,000
Construction in progress	50,628,000	64,842,000			(21,361,000)	94,109,000
. •	350,132,000	72,254,000		(769,000)	_	421,617,000
Less accumulated depreciation	177,953,000	14,160,000		725,000	_	191,388,000
Property, plant, and equipment, net	\$ 172,179,000	\$ 58,094,000	\$	(44,000)	\$	\$230,229,000

During 2013 and 2012, the District capitalized approximately \$3,382,000 and \$3,788,000, respectively, of interest expense.

6. Employee Retirement Plan

The District has a defined contribution plan that covers all full-time employees who elect to participate after they have met certain eligibility requirements. Under the plan, the District is required to contribute a specified percentage of eligible employees' salaries based on years of service. Participants may contribute up to the maximum level allowed by the Internal Revenue Code (IRC) or 25% of gross salary, whichever is less. The participants vest immediately in all participant contributions and vest 100% over a five-year cliff vesting schedule in all District contributions. The retirement benefits received by the participants will depend upon the accumulated value of their accounts at distribution upon termination, attaining age 59½, severe financial hardship, or death.

Retirement expense included in employee benefit expense was approximately \$3,659,000 and \$3,429,000 in 2013 and 2012, respectively, representing the required contributions in both years.

Notes to Basic Financial Statements (continued)

6. Employee Retirement Plan (continued)

The District also sponsors a deferred compensation plan covering substantially all employees. These plans were established under Section 457 of the IRC. The District reports the plan assets and a corresponding liability in the accompanying financial statements. Accordingly, the District has recorded an asset and a corresponding liability of \$190,000 and \$773,000 for the fair market value of the plans' combined assets as of June 30, 2013 and 2012, respectively.

7. Risk Management

The District participates in the State of Louisiana Patient Compensation Fund (the Fund). The Fund provides malpractice coverage to the District for claims in excess of \$100,000, up to \$500,000. According to current state law, medical malpractice liability (exclusive of future medical care awards) is limited to \$500,000 per occurrence. Hospital management has no reason to believe that the District will be prevented from continuing its participation in the Fund.

The District is involved in litigation arising in the ordinary course of business. Claims alleging general and malpractice liability have been asserted against the District and are currently in various states of litigation. The District accrued approximately \$3,025,000 and \$2,058,000 as of June 30, 2013 and 2012, respectively, for the estimated losses and expenses related to general and professional liability claims for which the District is self-insured. Claims have been filed alleging damages in excess of the amount accrued for estimated malpractice costs. It is the opinion of management that estimated malpractice costs accrued are adequate to provide for probable losses resulting from pending or threatened litigation. Additional claims may be asserted against the District arising from services provided to patients. The District is unable to determine the ultimate cost of the resolution of such potential claims; however, an accrual has been made based on estimates for these claims.

The District has commercial insurance that provides coverage for workers' compensation and employee health claims in excess of certain self-insured limits. The District accrued approximately \$1,925,000 and \$1,974,000 at June 30, 2013 and 2012, respectively, for employee health insurance and workers' compensation claims.

7. Risk Management (continued)

The following table summarizes the changes in the self-insurance liability:

			C	urrent-Year				
Year Ended June 30	Fiscal Year Ch				Claim Payments	Balance at Fiscal Year-End		
2013 2012	\$	4,031,000 3,254,000	\$	22,216,000 26,224,000	\$	21,297,000 25,447,000	\$	4,950,000 4,031,000

8. Long-Term Debt and Capital Lease Obligations

The District's long-term debt consisted of the following:

	June 30			
	2013	2012		
Hospital Revenue Bonds, Series 2003A	\$ 59,005,000	\$ 61,245,000		
Hospital Revenue Bonds, Series 2003B	19,400,000	19,600,000		
Hospital Revenue Bonds, Series 2009A	99,000,000	99,000,000		
Bonds, Series 2011	25,000,000	25,000,000		
North Oaks Surgery Center Loan	1,996,204	2,067,247		
Capital leases	16,657	84,642		
Total	204,417,861	206,996,889		
Plus unamortized bond premium on 2004	, ,			
and 2003 bonds	97,978	108,635		
	204,515,839	207,105,524		
Less current portion	3,988,441	2,579,069		
Long-term debt, less current maturities	\$ 200,527,398	\$ 204,526,455		

On July 5, 1994, the District issued \$61,535,000 of Hospital Revenue Bonds, Series 1994 (the Series 1994 Bonds). The Series 1994 Bonds originally consisted of \$16,190,000 of serial bonds and \$45,345,000 of term bonds. Portions of the 1994 bonds were repaid in 2003 and 2004.

Notes to Basic Financial Statements (continued)

8. Long-Term Debt and Capital Lease Obligations (continued)

On July 2, 2003, the District issued \$70,000,000 of Hospital Revenue and Refunding Bonds, Series 2003A (Series 2003A Bonds). Approximately \$50,000,000 of the Series 2003A Bond proceeds was used to repay a portion of the Series 1994 Bonds. The Series 2003A Bonds originally consisted of \$24,080,000 of serial bonds and \$45,920,000 of term bonds. The serial bonds mature annually in amounts ranging from \$700,000 in 2007 to \$2,895,000 in 2018 and bear interest at rates ranging from 2.75% to 5.375%. The term bonds consist of \$24,095,000 due February 1, 2025, bearing interest at 5%, and \$21,825,000 due February 1, 2030, bearing interest at 5%. Under the terms of the bond indenture, the District is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days' cash on hand. The District was in compliance with these provisions of the bond indenture at June 30, 2013.

On August 28, 2003, the District issued \$20,000,000 of Hospital Revenue Bonds, Series 2003B (Series 2003B Bonds). These serial bonds were to mature annually in amounts ranging from \$2,625,000 in 2030 to \$5,920,000 in 2033 at variable interest rates not to exceed 12%. The Series 2003B Bonds were deemed to be demand bonds and, under the terms of the indenture, bond holders had the option to tender to the trustee the outstanding bonds for repurchase.

On September 10, 2009, the District entered into a transaction with a financial institution whereby the financial institution purchased the Series 2003B Bonds on the open market. The District is still obligated to repay the Series 2003B Bonds with a final maturity date 24 years after closing. The financial institution shall have the right to remarket the bonds at par at the end of the 5th, 10th, 15th, and 20th year after the closing. As a result of the transaction, the debt service requirements of the District were amended, resulting in annual principal payments in varying increments beginning in 2011 through 2033. In addition, the interest rate was modified to be a variable rate based on 65% of the London Interbank Offered Rate (LIBOR) plus 2.5% with a LIBOR floor of 2.0%. On May 1, 2013, the variable interest rate was renegotiated to 65% of LIBOR plus 2.25%. Under the terms of the bond indenture, the District is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days' cash on hand. The District was in compliance with these provisions of the bond indenture at June 30, 2013.

On October 7, 2009, the District issued \$99,000,000 of Hospital Revenue Bonds, Series 2009 (Series 2009A Bonds), which are insured, taxable Build America Bonds with a coupon interest rate of 7.2%. These bonds qualify for a 32% interest payment subsidy from the U.S. Department

Notes to Basic Financial Statements (continued)

8. Long-Term Debt and Capital Lease Obligations (continued)

of the Treasury. During 2013 and 2012, the District received approximately \$2,404,000 and \$2,495,000 of subsidies, respectively, which have been recorded as nonoperating revenue in the statement of revenue, expenses, and changes in net assets. These bonds funded the major expansion program on the NOMC campus. These bonds mature annually in amounts ranging from \$1,170,000 in 2030 to \$12,390,000 in 2042. Under the terms of the bond indenture, the District is required to maintain, among other provisions, a certain debt service coverage ratio and minimum level of days' cash on hand. The District was in compliance with these provisions of the bond indenture at June 30, 2013.

On December 31, 2010, the District acquired a surgery center building by assuming a loan in the amount of \$2,166,675 at an interest rate of 5.39%. The principal balance on the loan is due in October 2014 for approximately \$1,895,000. The District may refinance the loan upon the expiration of the existing loan.

On November 3, 2011, the District issued \$25,000,000 of Hospital Revenue Bonds, Series 2011 (Series 2011 Bonds). These bonds mature annually beginning in 2014 through 2027 in amounts ranging from \$1,345,000 to \$2,305,000 and bear interest at a fixed annual rate of 4.36%. The Series 2011 Bonds are callable for redemption at any time prior to their stated maturities at the option of the District, at whole but not in part, at the principal amount thereof, including accrued interest at the redemption due, plus a premium of up to 5%, depending on the date of redemption.

As of June 30, 2013, the District had two outstanding capital leases as reflected above. The obligation on the first lease was \$5,817 (all current). The second lease has a total obligation of \$10,840 (\$7,600 current and \$3,240 long-term).

8. Long-Term Debt and Capital Lease Obligations (continued)

The estimated debt service requirements on the Hospital Revenue Bonds at June 30, 2012, were as follows:

	Principal	Interest
2014	\$ 3,900,000	\$ 11,653,817
2015	4,075,000	11,468,446
2016	4,670,000	11,268,450
2017	5,070,000	11,047,341
2018	5,280,000	10,815,003
2019–2023	30,395,000	50,377,447
2024–2028	35,715,000	43,001,047
2029–2033	24,030,000	35,672,426
2034–2038	42,940,000	26,873,280
2039–2043	46,330,000	8,530,200
	\$ 202,405,000	\$ 220,707,457

Included in the estimated interest payments in the table above is approximately \$56.7 million of interest for the Series 2009 Build America Bonds that is estimated to be received by the District as a subsidy from U.S. Department of the Treasury over the remaining term of the bonds.

The following table summarizes the changes in the long-term debt and capital lease obligations:

Year Ended June 30	Beginning of Fiscal Year Long-Term Debt	_	Additions	Principal Payments	Balance at Fiscal Year-End
2013	\$ 206,996,889	\$		\$ 2,579,028	\$ 204,417,861
2012	184,471,584		25,000,000	2,474,695	206,996,889

Notes to Basic Financial Statements (continued)

9. Charity Care

The District maintains records to identify and monitor the level of charity care it provides. These records reflect the amount of charges forgone, approximately \$6,830,000 and \$7,378,000 in 2013 and 2012, respectively, for services and supplies furnished under its charity care policy.

10. Governmental Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers in recent years. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse laws and regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

11. Commitments

The District had various commitments totaling approximately \$11,552,000 and \$44,542,000 at June 30, 2013 and 2012, respectively. These commitments include expansion of North Oaks Medical Center and various capital equipment purchases.

12. Subsequent Event

The District's group purchasing organization, Premier Healthcare Solutions, Inc. (PHSI), completed an initial public offering on September 26, 2013. This resulted in the District's 9,518 shares of PHSI stock being converted into 225,090 shares of Class B Units in the public company.

12. Subsequent Event (continued)

The District's initial ownership interest in PHSI was recorded as a cost-based investment of \$75,000 at June 30, 2013. In conjunction with the offering, PHSI sold 35,985 shares of the District's stock at \$25.38 per share. This resulted in the District recognizing a realized gain of approximately \$901,000 in October 2013. The remaining 189,105 shares were valued at an average of \$27.00 per share, and resulted in an increase in the fair value of the District's remaining interest in PHSI to \$5,105,835 at the date of the transaction.

The District has evaluated subsequent events through October 21, 2013, which is the date the financial statements were available to be issued.

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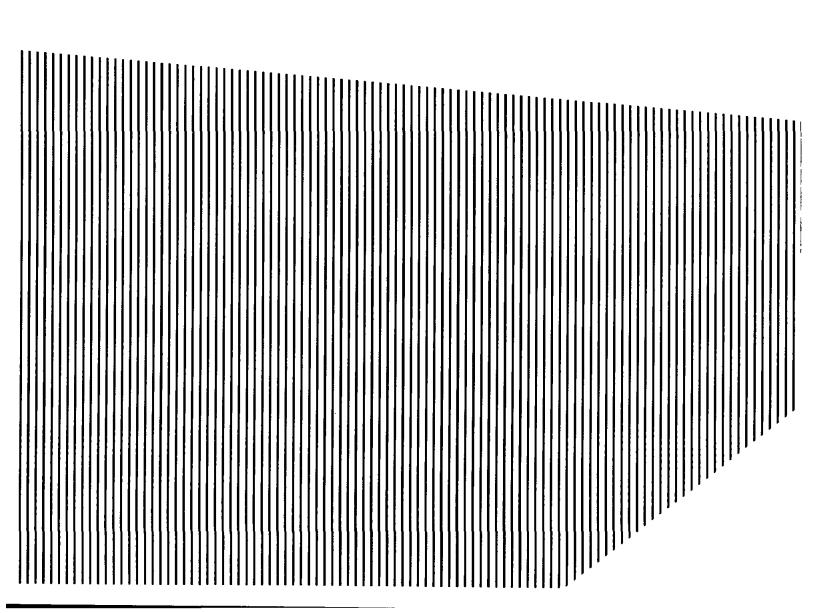
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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards

The Board of Commissioners
Hospital Service District No. 1 of the Parish of
Tangipahoa, State of Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (d/b/a North Oaks Health System) (the District), which comprise the balance sheets as of June 30, 2013, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Oaks Health System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Oaks Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of North Oaks Health System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Oaks Health System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

October 21, 2013



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Independent Auditors' Report on Schedule of Debt Service Coverage Ratio, Cash on Hand, and Debt-to-Capitalization Ratio

The Board of Commissioners
Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the balance sheet of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (d/b/a North Oaks Health System) (the District) as of June 30, 2013, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the year then ended, and have issued our report thereon dated October 21, 2013.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the terms, covenants, provisions, or conditions of Section 303(K) of the Supplemental Resolution relating to the \$90,000,000 Hospital Revenue Bonds (Series 2009A) reflecting the provisions of resolutions adopted by the District on May 18, 1994; June 22, 1994; March 26, 2003; June 25, 2003; August 27, 2003; August 27, 2008; August 26, 2009; and September 30, 2009; and Section 4.03 of the Supplemental Resolution dated October 26, 2011; related to the \$25,000,000 Hospital Revenue Bonds (Series 2011), insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

We are not aware of any material modifications that should be made to the accompanying schedule of debt service coverage ratio, cash on hand, and debt-to-capitalization ratio in order for it to be in conformity with the prescribed method described in Note 1.

This report is intended solely for the information and use of the Board of Commissioners, management, and the bond trustee, and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst + Young LLP

October 21, 2013

Schedule of Debt Service Coverage Ratio, Cash on Hand, and Debt-to-Capitalization Ratio (Unaudited)

Year Ended June 30, 2013

Debt service coverage ratio:	
Net income available for debt service:	A (1.00=0.0)
Excess of revenue and income over expenses	\$ (4,897,226)
Plus unrealized loss	236,570
Add:	
Depreciation	16,284,053
Interest expense	9,265,777
Net income available for debt service	\$ 20,889,174
Maximum annual debt service	\$ 16,488,040
Debt service coverage ratio	1.27
Minimum required debt service coverage ratio per Section 303(K)(2)	1.20
Cash on hand*	\$ 78,333,874
Average daily expense:	
Operating expenses	\$ 285,234,491
Less depreciation	16,284,053
Less depreciation	\$ 268,950,438
A 1.11 d 1 000 1 3	
Average daily expense (based on 365 days)	\$ 736,851
Days cash on hand	106.31
Minimum required days cash on hand per Section 303(K)(3)	90.00
Debt-to-capitalization ratio:	
Long-term debt	\$ 204,515,839
Net assets	180,329,421
Total long-term debt and net assets	\$ 384,845,260
Long-term debt divided by the total of long-term debt plus net assets	53%
Debt-to-capitalization requirement per Supplemental Resolution	
Section 303(K)(8)	60%

^{*} Cash on hand, as defined per the Supplemental Resolution, includes unrestricted cash and marketable securities (including Board-designated funds but excluding the proceeds of any indebtedness) as of the last day of the fiscal year.

See accompanying note.

Note to Schedule of Debt Service Coverage Ratio, Cash on Hand, and Debt-to-Capitalization Ratio (Unaudited)

Year Ended June 30, 2013

1. Basis of Presentation

The computation in the schedule of debt service coverage ratio, cash on hand, and debt-to-capitalization ratio is prescribed by Section 303(K) of the Supplemental Resolution relating to the \$90,000,000 Hospital Revenue Bonds (Series 2003) and the \$99,000,000 Hospital Revenue Bonds (Series 2009A) reflecting the provisions of resolutions adopted by Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana, on May 18, 1994; June 22, 1994; March 26, 2003; June 25, 2003; August 27, 2003; August 27, 2008; August 26, 2009; and September 30, 2009; and Section 4.03 of the Supplemental Resolution dated October 26, 2011, related to the \$25,000,000 Hospital Revenue Bonds (Series 2011).



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Independent Auditors' Report on Compliance With Revenue Bond Provisions

The Board of Commissioners
Hospital Service District No. 1 of the Parish of Tangipahoa,
State of Louisiana

We have audited the balance sheet of Hospital Service District No. 1 of the Parish of Tangipahoa, State of Louisiana (d/b/a North Oaks Health System) (the District) as of June 30, 2013, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the year then ended, and have issued our report thereon dated October 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the terms, covenants, provisions, or conditions of Section 303(K) of the Supplemental Resolution relating to the \$90,000,000 Hospital Revenue Bonds (Series 2003) and the \$99,000,000 Hospital Revenue Bonds (Series 2009A) reflecting the provisions of resolutions adopted by the District on May 18, 1994; June 22, 1994; March 26, 2003; June 25, 2003; August 27, 2003; August 27, 2008; August 26, 2009; and September 30, 2009; and Section 4.03 of the Supplemental Resolution dated October 26, 2011, related to the \$25,000,000 Hospital Revenue Bonds (Series 2011), insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Commissioners, management, and the bond trustee, and is not intended to be, and should not be, used by anyone other than these specified parties.

October 21, 2013

1305-1085295

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